

Members

Rep. Thomas Kromkowski, Chairperson
Rep. Terry Goodin
Rep. Larry Buell
Rep. Richard Mangus
Sen. Joseph Harrison
Sen. Thomas Weatherwax
Sen. Allie Craycraft
Sen. Larry Lutz
Claude Davis
Steve Meno
William Gettings, Jr.
Connie Lux



PENSION MANAGEMENT OVERSIGHT COMMISSION

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MEETING MINUTES¹

Meeting Date: September 25, 2002
Meeting Time: 10:30 A.M.
Meeting Place: State House, 200 W. Washington St.,
Room 404
Meeting City: Indianapolis, Indiana
Meeting Number: 2

Members Present: Rep. Thomas Kromkowski, Chairperson; Rep. Larry Buell; Sen. Allie Craycraft; Sen. Larry Lutz; William Gettings, Jr..

Members Absent: Rep. Terry Goodin; Rep. Richard Mangus; Sen. Joseph Harrison; Sen. Thomas Weatherwax; Claude Davis; Steve Meno; Connie Lux.

Representative Kromkowski called the meeting to order at 10:37 a.m. Representative Kromkowski said that while the Commission did not have a quorum, they would take testimony on today's agenda topics.

1. Letter to the Internal Revenue Service (IRS) regarding Leave Conversion

The Chair called upon Ms. Lisa Harrison of ICE Miller, the legal firm representing the Indiana Deferred Compensation Committee, in whose name the proposed letter to the IRS will be sent requesting a change in the Leave Conversion Rule. Ms. Harrison distributed two documents relating to the proposed letter. Exhibit A, Time Line for Internal Revenue Service Submission Leave Conversion, contains dates and the expected action to be taken on those dates regarding the submission of the letter to the IRS. Exhibit B, Proposed Revision to the State of Indiana Deferred Compensation Matching Plan-Leave Conversion, outlines the various proposed revisions to the plan.

¹ Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of \$0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is <http://www.ai.org/legislative/>. No fee is charged for viewing, downloading, or printing minutes from the Internet.

2. Employee Retirement Application Process-Public Employees' Retirement Fund

Representative Kromkowski called upon Mr. William Butler, Director of the Public Employees' Retirement Fund (PERF) and Mr. Ed Gohmann, Fund Counsel. In their presentation, the two distributed five documents relating to the retiree application process. Exhibit C, Public Employees' Retirement Fund-State and Municipality Retirees, shows the number of new retirees as of July 1, 2002, and the projected number of new retirees as of July 1, 2003, through July 1, 2010. Exhibit D, Public Employees' Retirement Fund-State and Municipality New Members Eligible for Retirement, shows the number of new members eligible for retirement as of July 1, 2002, through July 1, 2010. Exhibit E, Public Employees' Retirement Fund-Annual Increase in New Retiree Processing, shows the projected annual percentage increase in retiree processing through the year 2010. Exhibit F, Public Employees' Retirement Fund-Average Number of Days to Receive First Retirement Check, shows the average number of days to receive the first retirement check. Exhibit G, Public Employees' Retirement Fund-Number of Regular Retirements Completed, shows the number of new retirements completed and the number of retirement applications by number of days in process: 1) zero-30 days; 2) 31-60 days; 3) 61-90 days; and 4) over 90 days.

Mr. Butler told the Commission that the retirement application process "spikes" twice a year: 1) at the end of the calendar year; and 2) at the end of the school year. Referring to Exhibit G, Mr. Butler said that he wants the over-90-day segment to disappear. Mr. Butler said that allowing PERF to pay 85% of the estimated benefit to a recipient has reduced the number of days required to get benefits in the hands of recipients. In addition, Mr. Butler said that PERF is re-engineering the retirement process as part of its on-going efforts to make the process more efficient. He said that the IT system for retirement processing is 93-94% complete. Mr. Butler told the Commission that he anticipates some legislative changes to harmonize with the workloads, but there are no specifics yet.

Continuing, Mr. Butler said that the workload increases every year. He said that there are approximately 24,000 to 25,000 members eligible to retire today. Mr. Butler further commented that he expects the number to drop off after 2006. He attributes this to the baby boomers who entered the labor force 25 years ago. Mr. Butler said that he and the staff at PERF are working to eliminate backlogs and that the goal is to process the 85% estimated benefit payments for retirees within 30 days of receipt of the application.

Mr. Butler next distributed Exhibit H, Public Employees' Retirement Fund-Call Center Highlights September 2002. This has a volume chart which shows the number of calls offered, the number of calls handled, and the average speed of answers. Mr. Butler told the Commission that the Call Center opened in May 2002 for the first time. He also said that the goal of the Call Center is to answer calls and say "hello" within 25 seconds of the phone ringing.

In response to Commission questions, Mr. Butler said that about 50% of the retirement payments are electronic transfers direct to the recipient's account, and about 50% are checks. He also said that the delay in processing checks does not affect electronic transfers.

Mr. Butler next addressed the Commission on the Kevin Scott case. Mr. Scott, the former Director of Benefits for PERF, was escorted from the PERF building and terminated after PERF officials were informed of his past conviction for identity theft. Mr. Butler said that immediately following Mr. Scott's termination, an immediate sweep of all accounts and funds was made to determine if any unauthorized activity had occurred. Mr. Butler reported that no unauthorized activity had taken place. Mr. Butler concluded his remarks by telling the Commission that PERF is waiting for the conclusion of the investigations of the U.S. Secret Service, the Federal Bureau of Investigation, and local police.

3. Teachers' Retirement Fund Report

Representative Kromkowski called upon Dr. William Christopher, Director of the Teachers' Retirement Fund (TRF), to address the Commission. Dr. Christopher told the Commission that the TRF Annual Report on Operations would be available at the next Commission meeting in October. Dr. Christopher then distributed two letters regarding TRF payouts:

1) Exhibit I, Short-Term Projected State Pension Payouts for Budget Estimates for Fiscal Years Ending 2003-2007. Dr. Christopher said these projections were based on the June 30, 1999, valuation data and assumptions, except adjustments were made to the probabilities of retirement, and cost of living adjustment (COLA) projections were reduced by approximately seven percent.

2) Exhibit J, Retired Life Valuation Results and Estimate of Contingency Reserve for Member Annuities. Dr. Christopher said that since 1991, \$100 million has been paid in 13th checks. A 13th check is a supplemental retirement allowance arising from earnings on the investments of a system in excess of those determined as needed for other purposes. Dr. Christopher told the Commission that the excess amount in the reserve account decreased from \$79 million to \$34 million in the last year. He said that the excess may disappear next year altogether.

4. Professional Firefighters Union of Indiana-Legislative Proposal

No one from the Professional Firefighters Union was present to discuss the proposal.

5. Revival of Judges' Retirement System Legislation

Representative Kromkowski requested that the staff distribute copies of the proposed Judges' Retirement System legislation. Exhibit K is Preliminary Draft (PD) 3295. PD 3295 increases the monthly benefit payable to participants, survivors, and beneficiaries under the 1985 Judges' Retirement System by the same percentages and under the same conditions as the monthly benefit is increased for members of the PERF. Exhibit L is PD 3297. PD 3297 allows a person serving as a full-time magistrate on July 1, 2003, and requires a person who begins serving as a full-time magistrate after July 1, 2003, to become a participant in the 1985 Judges' Retirement System. It also allows magistrates who are participants in the 1985 Judges' Retirement System to purchase, at full actuarial cost, service credit for prior service as a full-time commissioner, magistrate, or referee, or for prior service in other PERF positions.

The Chair called upon Mr. Doug Todd of McCready & Keene, Inc., actuary for the Judges' Retirement System, to comment upon the cost of the two proposals. Exhibit M, the fiscal impact of the two proposals, was distributed by the staff. Mr. Todd told the Commission that together, the proposals would increase the unfunded accrued liability of the 1985 Judges' Retirement System by \$11.9 million, and would increase annual contributions for the system by approximately \$113,000 per year over the next five years.

Representative Kromkowski told the Commission that they would vote on these proposals at the next meeting. Next, Representative Kromkowski distributed a letter from Barbara L. Brugnaux, Judge, Vigo Superior Court, Division 5-see Exhibit N. In the letter, Judge Brugnaux requests that legislation be proposed that would allow a judge who has served as a full-time judge *pro tempore* and is then appointed by the governor and/or elected to the position to receive credit for that time of service upon payment of the amortized contributions required for the length of service. Representative Kromkowski requested the preparation of a preliminary draft to accomplish this.

6. Senator Craycraft-Proposed Legislation

Senator Craycraft told the Commission that he will be speaking with Ms. Mary Beth Braitman of ICE Miller regarding the feasibility of certain proposed legislation and will present it at the next meeting.

The Chair announced that the next meeting will be Wednesday, October 23, 2002, at 10:30 a.m.

7. Bob Brown, American Federation of State County Municipal Employees (AFSCME) Council #62,-Leave Conversion

Representative Kromkowski recognized Mr. Bob Brown. Mr. Brown told the Commission that the July hearing on leave conversion had unprecedented state employee participation. He said that state employees want the leave conversion to be voluntary and not mandatory and that the conversion percentage should be 100% and not 60%. Mr. Brown said that the 60% conversion is a "back-door" attempt to limit accumulation of leave time. He said that the current disability plan does not pay 100%, while leave does pay 100%. Mr. Brown also suggested that state employees have an opportunity to participate in the leave conversion if they have 300 hours or not. He said that the issue should be negotiated with the state employee unions. Lastly, Mr. Brown suggested that there be affordable retiree health insurance provided by the State Department of Personnel and by PERF for all public employees.

The Chair adjourned the meeting at 11:20 a.m.